

**Rural Water, Sewer and Solid Waste  
Management District No. 3, Seminole County  
Cromwell, Oklahoma**

Financial Statements and  
Reports of Independent Auditor

October 31, 2020

Audited by

**BLEDSOE, HEWETT & GULLEKSON  
CERTIFIED PUBLIC ACCOUNTANTS, PLLLP**

Broken Arrow, Oklahoma

**Rural Water, Sewer and Solid Waste  
Management District No. 3, Seminole County  
Cromwell, Oklahoma  
Board of Directors  
October 31, 2020**

**Chairperson**

Monty Roza

**Vice Chairperson**

Patty Harjo

**Secretary/Treasurer**

Angie Fixico

**Office Manager**

Michelle Richardson

**Clerk**

Carmeletta Grant

**P.O. Box 142  
Cromwell, Oklahoma 74837  
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**Rural Water, Sewer and Solid Waste  
Management District No. 3, Seminole County  
Cromwell, Oklahoma**

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October 31, 2020

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CERTIFIED PUBLIC ACCOUNTANTS, PLLLP

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## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Rural Water, Sewer and Solid Waste  
Management District No. 3, Seminole County  
Cromwell, Oklahoma

### **Report on Financial Statements**

We have audited the accompanying financial statements of the business-type activities of the Rural Water, Sewer and Solid Waste Management District No. 3, Seminole County (the District), Cromwell, Oklahoma, as of and for the year ended October 31, 2020 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of October 31, 2020, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

The District has not presented the Management's Discussion and Analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

The prior year "memorandum only" comparative information and the supplemental information on page 14 presented for the purpose of additional analysis and are not a required part of the basic financial statements of the District. Such information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2021 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

*Bledsoe, Hewett & Gullekson*

Bledsoe, Hewett & Gullekson  
Certified Public Accountants, PLLLP

April 29, 2021



**BLEDSON, HEWETT & GULLEKSON**  
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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Rural Water, Sewer and Solid Waste  
Management District No. 3, Seminole County  
Cromwell, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying financial statements of the Rural Water, Sewer and Solid Waste Management District No. 3, Seminole County (the District) Cromwell, Oklahoma, as of and for the year ended October 31, 2020 and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 29, 2021.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting in order to determine our auditing procedures that are appropriate for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in the internal controls, described in the accompanying schedule of audit results as item 20-1, which is not considered a material weakness.

#### Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Bledsoe, Hewett & Gullekson*

Bledsoe, Hewett & Gullekson  
Certified Public Accountants, PLLLP

April 29, 2021

**Rural Water, Sewer and Solid Waste Management  
District No. 3, Seminole County  
Cromwell, Oklahoma  
Schedule of Audit Results  
October 31, 2020**

Section 1 – Summary of Auditor’s Results:

1. An unqualified opinion report was issued on the financial statements.
2. The audit disclosed a significant deficiency in the internal controls, item 20-1, which was not considered a material witness.
3. The audit disclosed no instances of noncompliance which were material to the financial statements.

Section 2 – Findings relating to the financial statements required to be reported in accordance with GAGAS:

20-1 Internal Control – Segregation of Duties

*Criteria* – The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the District’s assets and ensure accurate financial reporting.

*Condition* - Presently the same individual performs all accounting functions; receives utility service related payments and is responsible for service billing and adjustment, also makes bank deposits, writes checks and reconciles the monthly bank statements and prepares monthly financial reports.

*Cause* – The District’s limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

*Effect or Potential Effect* – Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to the accounting functions, including misappropriation of assets, could occur and not be detected within a timely basis.

*Recommendation* - While it may not be cost effective to hire additional administrative staff that would be necessary in order to adequately segregate the responsibilities, the District should consider a formal evaluation of their risks associated with this lack of segregation of duties. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with the lack of segregation of duties.

*Management Response* – Management agrees with this finding, and will provide adequate staffing once annual collections increase enough to justify the extra expense.

**Rural Water, Sewer and Solid Waste  
Management District No. 3, Seminole County  
Cromwell, Oklahoma  
Statement of Net Position  
October 31, 2020**

	October 31,	
<b>ASSETS</b>	2020	-Memorandum- -Only- 2019
Current assets:		
Cash in bank	\$ 192,433	154,652
Investments	8,502	13,874
Accounts receivable	37,255	34,062
Prepaid insurance	6,770	6,553
Total current assets	244,960	209,141
Capital assets:		
Water system	1,738,667	1,733,167
Equipment	44,088	16,524
Less: accumulated depreciation	(831,265)	(792,713)
Total capital assets	951,490	956,978
<b>TOTAL ASSETS</b>	<b>\$ 1,196,450</b>	<b>1,166,119</b>
 <b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 13,158	7,634
Refundable deposits	35,892	32,892
Total Liabilities	49,050	40,526
 <b>NET POSITION</b>		
Net investment in capital assets	951,490	956,978
Unrestricted	195,910	168,615
Total Net Position	1,147,400	1,125,593
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 1,196,450</b>	<b>1,166,119</b>

The accompanying notes to the financial statements are an integral part of this statement

**Rural Water, Sewer and Solid Waste  
Management District No. 3, Seminole County  
Cromwell, Oklahoma  
Statement of Revenue, Expenses and Changes in Net Position  
For The Year Ended October 31, 2020**

	<u>2019-20</u>	<u>-Memorandum- -Only- 2018-19</u>
<b>Operating Revenues:</b>		
Water services	\$ 226,020	202,089
Sewer services	76,816	75,067
Fees and fines	14,663	11,523
Total revenues from operations	<u>317,499</u>	<u>288,679</u>
<b>Operating Expenses:</b>		
Water purchases	98,458	74,152
Depreciation	38,552	44,171
Salary and contract management services	90,306	94,137
Repairs & maintenance	16,007	14,816
Office and phone	5,545	4,941
Insurance	11,164	8,967
Water testing & supplies	13,563	9,212
Health insurance	3,357	0
Dues and fees	4,190	5,776
Utilities	12,337	13,922
Vehicle	1,392	0
Other	1,256	1,000
Total expenses from operations	<u>296,127</u>	<u>271,094</u>
Excess of operating revenues over operating expenses	21,372	17,585
<b>Non-Operating Revenues (Expenses):</b>		
Interest income	<u>435</u>	<u>466</u>
Change in Net Position	21,807	18,051
Total Net Position, beginning of period	<u>1,125,593</u>	<u>1,107,542</u>
Total Net Position, end of period	<u>\$ 1,147,400</u>	<u>1,125,593</u>

The accompanying notes to the financial statements are an integral part of this statement

**Rural Water, Sewer and Solid Waste  
Management District No. 3, Seminole County  
Cromwell, Oklahoma  
Statement of Cash Flows  
For the Year Ended October 31, 2020**

	<b>2019-20</b>	<b>-Memorandum- -Only- 2018-19</b>
<b>Cash flows from operating activities:</b>		
Receipts from customers	\$ 317,306	283,201
Payments to employees	(79,780)	(83,753)
Payments to vendors	(172,488)	(146,559)
Net cash (used in) provided by operating activities	65,038	52,889
<b>Cash flows from capital and related financing activities</b>		
Capital assets purchased	(33,064)	(6,671)
<b>Cash flows from investing activities:</b>		
Interest on investments	435	466
Net increase (decrease) in cash and cash equivalents	32,409	46,684
Cash & cash equivalents, beginning of period	168,526	121,842
Cash & cash equivalents, end of period	\$ 200,935	168,526
 <b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>		
Operating Income	\$ 21,372	17,585
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation Expense	38,552	44,171
(Increase) decrease in current assets-		
Accounts receivable, net	(3,193)	(6,678)
Prepaid expenses	(217)	(2,023)
Increase (decrease) in current liabilities-		
Accounts payable	5,524	(1,366)
Refundable deposits	3,000	1,200
Net Cash Provided by Operating Activities	\$ 65,038	52,889

The accompanying notes are an integral part of the financial statements

**Rural Water, Sewer and Solid  
Waste Management District No. 3, Seminole County  
Cromwell, Oklahoma  
Notes to Financial Statements  
For Year Ended October 31, 2020**

**Note 1 – Significant Accounting Policies**

Organization

Rural Water, Sewer and Solid Waste Management District No. 43, Seminole County (the District) is an Oklahoma water district organized under Title 82 of Oklahoma Statutes, Sections 1324.1-1324.26 inclusive, to provide water service to rural residents of Seminole County, Oklahoma. The District is considered a subdivision of the State of Oklahoma. The District is exempt from federal and state income taxes. The membership consists of approximately 300 members.

The District is an independent, self-contained reporting entity with no associated component units. It is operated in a manner similar to a private business enterprise where the cost (expenses, including depreciation) of providing water services is financed through user charges. The District purchases water from Okfuskee Co. RWD No. 2.

Basis of Accounting

The accrual basis of accounting is followed for all accounts. Revenues are recorded when earned and expenses are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

Cash

The District's accounts at October 31, 2020 are comprised as follows:

First United Bank, Holdenville, OK	
Operating Revenue	\$ 104,668
Water Savings	45,144
BancFirst, Okemah, OK	
Sewer Operating Acct	22,535
Sewer Savings	<u>20,086</u>
Total cash	<u>\$ 192,433</u>

**Rural Water, Sewer and Solid  
Waste Management District No. 3, Seminole County  
Cromwell, Oklahoma  
Notes to Financial Statements  
For Year Ended October 31, 2020**

**Note 1 – Significant Accounting Policies – cont'd**

Investments

The District had the following investments at October 31, 2020:

First United Bank, Holdenville, OK: Certificate of Deposit No. 954926	\$ <u>8,502</u>
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Custodial Credit Risk

At October 31, 2020, the District held deposits of approximately \$200,935 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

Investment Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The District has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligation of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.

**Rural Water, Sewer and Solid  
Waste Management District No. 3, Seminole County  
Cromwell, Oklahoma  
Notes to Financial Statements  
For Year Ended October 31, 2020**

**Note 1 – Significant Accounting Policies – cont'd**

- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a. – d.).

Accounts Receivable

Billings for accounts receivable at October 31, 2020 were \$37,255. No computation was made for allowance for doubtful accounts, which is not considered to be material to the financial statements.

Capital Assets

Capital (fixed) assets are valued at cost, and depreciation is computed by use of the straight-line method. The estimated useful life of these assets range from five to 40 years. Included in these assets are the leases, rights and organization expenses of the District, which are being amortized over a 40 year period.

Capital asset information for the 2019-20 fiscal year is as follows:

	Balance at <u>Oct. 31, 2019</u>	<u>Additions</u>	<u>Deductions</u>	Balance at <u>Oct. 31, 2020</u>
Water distribution system	\$ 1,733,167	5,500	-	1,738,667
Equipment	16,524	27,564	-	44,088
Total depreciated capital assets	<u>1,749,691</u>	<u>33,064</u>	<u>-</u>	<u>1,782,755</u>
Less accumulated depreciation for:				
Water distribution system	782,796	36,269	-	819,065
Equipment	9,917	2,283	-	12,200
Total accumulated depreciation	<u>792,713</u>	<u>38,552</u>	<u>-</u>	<u>831,265</u>
Capital assets, net	<u>\$ 956,978</u>	<u>(5,488)</u>	<u>-</u>	<u>951,490</u>

**Rural Water, Sewer and Solid  
Waste Management District No. 3, Seminole County  
Cromwell, Oklahoma  
Notes to Financial Statements  
For Year Ended October 31, 2020**

**Note 1 – Significant Accounting Policies – cont'd**

Federal Income Tax

The District is exempt from federal and state income taxes.

Memorandum Totals

The “Memorandum Only” captions above the total columns mean that amounts are presented for overview information purposes only.

**Note 2 – Long-Term Debt**

There was no outstanding debt at October 31, 2020.

**Note 3 – Accumulated Unpaid Vacation and Sick Pay**

At October 31, 2020, no determination of the aggregate dollar value of vacation or sick pay had been made.

**Note 4 – Contracts**

The District entered into a water purchase contract with Okfuskee County Rural Water District No. 2 on February 22, 1990. The contract extends until January 1, 2029. The District purchases water for resale to its members. The contract may be terminated sooner by the District giving the seller a one year written notice of cancellation.

This contract provides the sole source of water for the District. Thus, an interruption of this source would adversely affect the District.

**Rural Water, Sewer and Solid  
Waste Management District No. 3, Seminole County  
Cromwell, Oklahoma  
Notes to Financial Statements  
For Year Ended October 31, 2020**

**Note 5 – Contributed Capital**

The District received a donation from the Muscogee Creek Nation in 2011-12, in the amount of \$203,944, for water system improvements. In 2013-14, the District received another donation from the Muscogee Creek Nation in the amount of \$105,787 for more water system improvements.

In 2014-15, the District was awarded a Community Development Block Grant, through the Oklahoma Department of Commerce (HUD – CFDA 14.228), in the amount of \$274,999. These funds were used to construct and improve the wastewater treatment plant. All these funds were spent and received in 2014-15, and were processed through Seminole County.

**Note 6 – Contingencies**

Subsequent Events

Management has evaluated subsequent events through April 29, 2021, which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.

**Rural Water, Sewer and Solid Waste Management  
District No. 3, Seminole County  
Cromwell, Oklahoma  
Schedule of Water Rates and Customers  
-Unaudited Information-  
October 31, 2020**

Water Rates

Basic rate (0 gallons)	=	\$24.00
Use rate (includes 1,000 gallons)	=	\$30.00
1,000 – 2,000 gallons	=	\$8.92 per 1,000 gallons
2,001 – 4,000 gallons	=	\$8.97 per 1,000 gallons
4,001 – 6,000 gallons	=	\$9.09 per 1,000 gallons
6,001 – 10,000 gallons	=	\$9.14 per 1,000 gallons
10,001 – 16,000 gallons	=	\$9.25 per 1,000 gallons
Over 16,000 gallons	=	\$9.38 per 1,000 gallons

Sewer Rates

Residential 1	=	\$ 59.29
Residential 2	=	\$ 95.59
Commercial 1	=	\$ 91.96
Commercial 2	=	\$178.09

Customers

The District had 302 customers at the close of the fiscal year.

Current membership fee is \$200 plus a \$150 security deposit. Installation of a new meter costs \$1,150 which includes the membership fee and security deposit.